

AGENDA ITEM 5
AUDIT RESOLUTION STATUS– HEALTH PLAN AUDITS
(PRIOR YEAR REPORTS WITH CURRENT YEAR UPDATES)
AS OF DECEMBER 31, 2008

Attachment 3A- Health Plan Audits

Audit Activity (Report Issue Date)	Description of Risk/Finding	Status/Comments
<p>Review of Long Term Care Group Inc. 08/04/08</p>	<p>4.1 Year end accounts payable are determined by reviewing one subsequent month's disbursements. However, this may not capture all disbursements that should be included in the accrual. Proper payment cutoff times are needed to ensure accurate accruals for year end financial reporting. Long Term Care Group should analyze more than one month of subsequent cash disbursements to determine proper amounts to be included in accounts payable at year end.</p> <p>4.2 Long Term Care Group does not maintain a general ledger system for financial accounting and reporting. The manual process used is prone to errors and inaccuracies. Long Term Care Group should strongly consider the implementation of an adequate general ledger system to record CalPERS' transactions This issue was noted on the previous audit by CalPERS in September 2004.</p> <p>4.3 Long Term Care Group prepares CalPERS' monthly financial information using a cash basis and converts to accrual only at the end of the year. The accrual basis of accounting should be used on a monthly basis since it is required by accounting principles generally accepted in the United States.</p>	<p>IN PROGRESS. Differing direction has been provided by CalPERS. During the June 30, 2008 year-end, Long Term Care Group was requested to provide year-end accruals by July 28, 2008, which prevented looking beyond a one-month window in order to determine the accruals. Long Term Care Group is looking to CalPERS to provide direction and assistance in rectifying this conflict between the auditor's report and the direction provided by the accounting team and awaits further clarification from CalPERS.</p> <p>IN PROGRESS. Long Term Care Group has submitted the development requests for four new reports that will be needed for the conversion to Great Plains. These reports are targeted for release in Q4. LTCG has secured the licensing requirements and are in compliance using the current licensing structure. LTCG can add the full G/L capabilities to the CalPERS database at no additional charge to the existing Great Plains instance. A separate project plan is attached that outlines the key deliverables and dates. Please note this is subject to changes based on a pending upgrade to the Great Plains software and is contingent upon the Q4 delivery date of the four new reports. Target completion May 1, 2009.</p> <p>IN PROGRESS. As previously noted, the Claims Accrual will be trued up twice per year. If this is required on a monthly basis, system development will be required. Other accruals for consideration include all manual check requests that we receive from CalPERS. In order to be accrued in the current month, all payment requests must be received by the 8th business day of the following month. Target completion May 2009.</p>

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<p>Review of Long Term Care Group Inc. 08/04/08 (continued)</p>	<p>6.1 Our review found Long Term Care Group has addressed four out of eleven prior year findings via the scorecard process, and is in the process of addressing the remaining findings.</p> <p>8.1 No policy or procedure exists to validate the relationship of non-member applicants to the active member. Long Term Care Group should implement procedures to validate the relationship of the non-member applicant to the active member to eliminate ineligible member enrollment risks.</p> <p>10.1 The bank reconciliation testing found no independent monthly review and approval process. Proper separation of duties will improve the checks and balances system necessary for effective internal control over cash.</p> <p>10.2 The bank reconciliation testing found outstanding checks totaling \$846,333 and dating back as far as 1999. These checks should be investigated, adjusted as appropriate and payment stopped as necessary. A policy should be established for reviewing outstanding checks as part of an effective internal control over cash disbursement process.</p>	<p>COMPLETE. Long Term Care Group has addressed four out of the eleven prior year findings via the scorecard process and is in the process of addressing the remaining findings. It states the remaining findings in the prior year (207) audit were addressed by staff retraining and implementing and updating quality processes where necessary. With respect to the member inquiry finding, Long Term Care Group and CalPERS have implemented a complaint acknowledgement letter.</p> <p>IN PROGRESS. Long Term Care Group is ready to discuss the development of an eligibility verification process with CalPERS' assistance. Long Term Care Group suggests setting a meeting with CalPERS and its IT area to discuss the options available to implement a comprehensive eligibility verification process. Target completion May 2009.</p> <p>COMPLETE. Beginning with the August 2008 Cash Reconciliation, the Long Term Care Group supervisor has been including her sign-off on the report after the trial balance has been completed. A supervisor will continue to sign off on Cash Reconciliation Reports after trial balance has been completed.</p> <p>COMPLETE. Bank protocols have been updated to not honor checks over a 180 days timeframe. Processing requirements have been finalized with CalPERS and the first outstanding check report will be sent in October 2008. Thereafter, we will report to CalPERS on an annual basis. Long Term Care Group will continue to send 120 and 180 day letters as per our prior protocols.</p>

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<p>Review of Long Term Care Group Inc. 08/04/08 (continued)</p>	<p>10.3 The bank reconciliation testing found the book balance was increased by a credit adjustment of \$40,250 on the June 2007 reconciliation with no supporting documentation to substantiate the credit adjustment. All adjustments should be supported and documentation archived. Long Term Care Group should investigate the adjustment and resolve the issue with the help of CalPERS staff.</p> <p>11.1 During our testing of unapplied cash at December 31, 2007, Long Term Care Group was unable to provide a detail of unapplied cash which was subsequently posted to the customers' accounts. A detailed unapplied cash report should be created which identifies the subsequent posting to the customers account on a monthly basis.</p> <p>11.2 As of April 30, 2008 there was unapplied cash in the amount of \$896 which pertained to cash received prior to December 31, 2007. This cash has not applied to the customers accounts. Policies and procedures should be established relating to the timeliness of applying cash receipts.</p> <p>11.3 Pertaining to the December 31, 2007 ending period, certain cash receipts are recorded as a liability account. On a given month, the unapplied cash account includes advance and current receipts. A monthly unapplied cash account analysis will determine the portion that pertains to outstanding receivables. This should be recorded as an accounts receivable balance reduction instead of reflected in a liability account.</p>	<p>COMPLETE. The adjustment was identified and included on the June 2007 reconciliation. The adjustment was due to a bank coding error that occurred on June 8, 2007, and was corrected the same day (documentation was provided).</p> <p>IN PROGRESS. The requested reports exist through the billing and collection systems and can be run for various date ranges. The reports allow Long Term Care Group to manage incoming deposit receipts and manage them through the cash application process. Long Term Care Group can submit a request for a newly developed report to meet CalPERS audit requirements if necessary. Target completion date is May 2009.</p> <p>COMPLETE. Long Term Care Group tracks the aging of Unapplied Cash daily on an internal control dashboard, including a total dollar amount pending, total items, and total items greater than 10 days. Any item greater than 10 days is thoroughly researched and resolved through application of monies, refunding due to overpayment or is held in suspense until the next receivable is due.</p> <p>IN PROGRESS. Long Term Care Group proposed an accounting treatment, and plans to review this with CalPERS on a conference call. Target completion May 2009.</p>

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<p>Review of Long Term Care Group Inc. 08/04/08 (continued)</p>	<p>12.1 For several months tested, partial payments were received but not accounted for, thereby overstating receivables. However, these errors were later corrected.</p> <p>12.2 In testing of earned and unearned premium revenue reconciliation reports, it was noted that billing invoices are generated 45 days in advance but are recorded in the month they were generated which results in the overstatement of the account receivable and unearned premiums payable.</p> <p>12.3 Aging reports had a number of outstanding receivables over 90 days totaling \$55,167 and dating back to 1999. Formal collection policies and procedures should be established to collect outstanding accounts or establishing an allowance for uncollectible accounts.</p> <p>14.1 During the testing of the earned and unearned premium reconciliation, the detailed supporting transaction listings report was not provided in a timely manner. Having an adequate general ledger system in place could have eliminated this issue. In the meantime, Long Term Care Group should create an inventory list of essential reports for the financial accounting and reporting process, which should include the report's purpose and contact person.</p>	<p>COMPLETE. Effective December 2007, LTCG reflects partial payments in the accounts receivable balance. No additional action is required.</p> <p>IN PROGRESS. Long Term Care Group proposed an adjusting journal entry to address this concern, thereby reducing the A/R and Unearned Premium account balances for invoices with a future due date, and plans review this with CalPERS on a conference call. Target completion May 2009.</p> <p>COMPLETE. Long Term Care Group has a formal collections policy in place. CalPERS Long Term Care program allows for a 6-day grace period to pay premiums due. Termination for non-payment of premium occurs 40 days after the second collection activity. Additionally, Long Term Care Group reviews an Account Receivable Aging Report monthly to identify any accounts that have passed the grace period. The accounts are reviewed and appropriate action is taken to close the aging receivable. As of 9/30/08, there were 8 receivables greater than 90 days past due, compared to 9/30/07 where there were 673 receivables greater than 90 days past due; representing a 53.5% reduction in receivables greater than 90 days past due. LTCG will continue to diligently work its process and reports.</p> <p>IN PROGRESS. Long Term Care Group has provided a document which provides the current reports provided to CalPERS on a monthly basis. During the trial balance preparation, the source document is noted on the corresponding reconciliation in order to assist with the month-end review. CalPERS will be notified on any changes in contacts.</p>

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Review of Long Term Care Group Inc. 08/04/08 (continued)	<p>18.1 Fee invoice testing showed performance penalties of \$37,689 incurred January 2006 through November 2007 but were not calculated on a timely basis in accordance with Administrative Services Agreement. The calculation and application of performance penalties to invoices monthly will ensure financial report timeliness and reliability.</p> <p>19.1 During our testing for administrative expenses, Long Term Care Group had difficulty locating supporting documentation for seven of 25 selected transactions. The implementation of retention and archiving procedures should assure the accessibility of sensitive records.</p> <p>19.2 The administrative expense testing showed one of 25 transactions were not recorded in the proper period. The improvement of vendor invoice policies and procedures will ensure the proper recording of expenses.</p>	<p>COMPLETE. Since November 2007, performance penalties should be calculated and applied to invoices on a monthly basis to ensure timely and reliable financial reporting.</p> <p>COMPLETE. Long Term Care Group was able to retrieve all of the requested documentation that was stored off site. It will retain on site accounting records for two fiscal periods (current year and prior year). The current archive and retrieval procedures have been reviewed and updated since the audit.</p> <p>IN PROGRESS. Procedures for completing the trial balance will be updated to include accrual for checks issued in next month (cut off will be the 8th business day). Accruals will be included in the September 2008 Trial Balance. In general, these accruals will come from the manual check requests that LTCG receives from CalPERS. Target completion January 2009.</p>